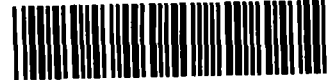




UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

US EPA RECORDS CENTER REGION 5



515304

MAR 5 1981

MEMORANDUM

OFFICE OF ENFORCEMENT

SUBJECT: Reilly Tar and Chemical

FROM: Mike Kosakowski, Hazardous Waste
Enforcement Task Force

Mike Kosakowski

TO: File

Julia Parzen of the Office of Planning and Evaluation reviewed the 1977 Dun and Bradstreet file on Reilly Tar and Chemical. A major difficulty she encountered in trying to assess Reilly's financial capabilities was that, since Reilly is a privately held company, income figures were not available. She assumed that SIC category 2992 applied, and if not, compared the before tax profit to net worth ratio of this category to the general SIC 29 category (average 33% versus 30% respectively). Because of this closeness the SIC 2992 data was used..

With an excellent financial record, Reilly was assumed to be in the upper quartile for net profit to net worth, 39 percent. Using a simple ratioing technique it is estimated that Reilly could afford five million dollars per year for a few years, perhaps five years without being forced to shut down. This assessment was only used to qualitatively assess whether Reilly could afford more than their one million dollar offer. Although Julia is positive that Reilly can, we need to obtain current financial data including profits, business costs, etc, in order to negotiate a more realistic dollar amount with Reilly.

From: Julia Parzen

Reilly Tar + Chemical

(2952) → asphalt products one yr data
petrol refining last Q '79 -
1st Q '80

R.M. doesn't have 2952
2992 lub oil and grease (similar inputs, but
smaller firms, etc.)

	2992	29
profit ^{pre-tax} /NW		
upper Q	(39)%	(30)%
ind avg	(33)%	
lower Q	11.8%	
	→ (six firms) do not work in industry	

Reilly in very good shape, so assume in upper Q
Then can afford 27.2% reduction in profit
 $27.2\% \times \$31 \text{ M NW} = \8.4 M/yr
from ind avg, it is (4.5)
Estimated profit is $39\% \times 31 \text{ M NW} = \12.1 M/yr
Could take away 2/3 profit 10

$$\frac{\text{Profit '79}}{\text{Sales '79}} = \frac{\$12.1 \text{ M}}{\$70 \text{ M}} = 17\%$$

#65M revenue

pre-tax profit%/sales	2992	
Reilly	17%	
ind avg	5.7%	

$$\frac{1}{2}(5.7\%) = 2.9\%$$

Then could afford 14.1% reduction in sales
(11%)

$$14.1\% \times \$70 \text{ M sales} = \$9.78 \text{ M}$$

(2.7)

Might shell out \$5-8 M for a few years (5?)

1977

	Data available		TI and yrs history
	177	176	clear
debt	5.4 M	5.24 M	condition good
sales	65 M	65 M	trend steady
NW	31 M	31 M	favourable bank relations
Assets	46 M		

Assume profits is 2 \$10 M - $+ (20\% \text{ ROE, ROS} \rightarrow 3M)$
 see previous page

we know expend plant + equip $(4 M)$
 dividends $< 35\% \pi = (3.5 M)$

(\$)

Source

NI (assumption from p.1)	10,000,000
Depreciation (10% assets - adequate depreciation)	4,660,000
	<u>14,660,000</u>

Uses

Cap Expend (debt covenant)	4,000,000
Dividends (debt covenant)	3,500,000
Debt Repayment (assume 5 yrs, $65.4M$ conservative)	<u>2,000,000</u>
	9,500,000

NET : 5,000,000

Contingent on assumptions, could afford $5M$ / yr. for a few years

5 + 5 = (25)

[Handwritten scribbles]

3

Rm 935 E Tower
Ask for Dr Weiss
Marie Irizarry

SRI data

only 2 manufacturers of pyridines
(coal-tar derivatives)

Rilly responsible for 1/2 capacity of
35M lbs yr

from SRI study - Hugh Wise 426-2497
EGD

can get

price =
manufacturing cost =

margin =

annual production

For all chemicals :

76 77 78 79

Ind Avg ROE 16.1 14.5 14.9 17.3

Ind Avg Margin on Sales 6.7 6.1 6 6.2

→ so for Rilly:

$31,456,504 \times 14.5\% = \text{Income} = 4,561,193$

after tax ?

~~31.4M~~ $\times 6.1\% = \text{Margin}$

$6.1\% \text{ of } 65M = 3,979,000$

Kosakowski
Hwy Waste Task Force
472-3500

Thursday: Frank Biros 426-~~8710~~
Acting B.C.

Reilly

settlement for clean up \$1M offer
contamination at one site

5 other locations

can not show that they
can't afford
can't afford 5-10M up for at least
a few years
5?

cost clean up \$100M (cap cost)

0.4M \$100,000

what can they pay

(1) upfront by co

(2) upfront by gov't superfund
payback pay-see for
reimbursement

8% to 15%
20 or 30 years

pump

well drilling

Carbon absorption

connecting raw water mains

reconstruction?

Income

Depreciat